

CITY OF BRAZIL, INDIANA

ORDINANCE NO. 5-2005

**AN ORDINANCE ESTABLISHING A FIXED ASSET CAPITALIZATION
POLICY FOR THE CITY OF BRAZIL, INDIANA AND ITS VARIOUS
DEPARTMENTS,**

WHEREAS, the Common Council is the legislative body of the City of Brazil in Clay County, in the State of Indiana, and

WHEREAS, the Common Council of the City of Brazil, Indiana so desires to establish A capital asset policy for the City and its various Departments in order to provide a higher degree of control over its considerable investment in capital assets, and to be able to demonstrate accountability to its various constituencies: citizens, rate-payers, oversight bodies and regulators.

NOW THEREFOR, BE IT ORDAINED by the Common Council of the City of Brazil in Clay County, in the State of Indiana:

SECTION 1. DEFINITIONS AND PROVISIONS:

For the purpose of this ordinance, the following definitions shall apply unless the context clearly indicates or requires a different meaning.

“Tangible Assets”. Assets that can be observed by one or more of the physical senses. This may be seen and touched and, in some environments, heard and smelled.

“Fixed Assets”. Tangible assets of a durable nature employed in the operating activities of the unit and that are relatively permanent and are needed for the production or sale of goods and services are termed property, plant and equipment of fixed assets. These assets are not held for sale in the ordinary course of business. This broad group is usually separated into classes according to the physical characteristics of the items (e.g., land, infrastructure, buildings, improvements other than buildings, machinery and equipment, and construction in progress).

“Capital Outlays”. Expenditures which benefit both the current and future fiscal periods. This includes costs of acquiring land or structures; construction or improvement of buildings, structures, or other fixed assets; and equipment purchased having an appreciable and calculable period of usefulness. These are expenditures resulting in the acquisition of or addition to the government’s general fixed assets.

“Historical Cost”. The cash equivalent price exchanged for goods and services at the date of acquisition. Land, buildings, equipment, and most inventories are common examples of items recognized under the historical cost attribute.

Land

Land is defined as specified land, lots, parcels or acreage including rights of way, owned by the City of Brazil, its various departments, boards or authorities, regardless of the method or date of acquisition. Easements will not be included as the City does not own them, but as an interest in land owned by another (i.e. property owner) that entitles its holder to a specified limited use.

This City will capitalize all land purchases, regardless of cost. The value of land shall not be depreciated.

A department will record donated land at fair market value on the date of transfer plus any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

Infrastructure

Infrastructure is defined as the basic facilities, services, and installations needed for the functioning of a community or society, such as transportation and communication systems, and water and power lines. Infrastructure shall include, but not be limited to, roads and streets, street lighting systems, bridges, overpasses, sidewalks, curbs, parking meters, street signs, viaducts, wharfs, storm and sewer water collection systems, and drinking water system. Infrastructure shall not include driveways or parking lots.

Additions and improvements to infrastructure, which increase the capacity or efficiency of the asset, will be capitalized. All infrastructure installed prior to the passage of this ordinance will be capitalized based on the estimated historical cost. Maintenance/repairs will be considered as necessary to maintain the existing asset and, therefore, not capitalized. For example, patching, resurfacing, snow removal, etc., are considered maintenance activities and will be expensed. Also, normal department operating activities such as feasibility studies, and preliminary engineering and design, will be expensed and not capitalized as an element of the infrastructure asset.

Alleys will not be included as part of the infrastructure for the following reason:

Existing improved alleys will be maintained as gravel alleys, and the City is responsible only for the maintenance, such as patching and repairing. Any investments to upgrade the alleys will be done by homeowner participation. Therefore, the City will not track and value alleys and the patching/repairs will be expensed as they occur.

Machinery and Equipment:

The definition of machinery and equipment is: an apparatus, tool, or conglomeration of pieces to form a tool. The tool will stand alone and not become a part of a basic structure of building.

Machinery combined with other machinery to form one unit with a total value greater than the above mentioned limit will be one unit.

Improvements or renovations to existing machinery and equipment will be capitalized only if the result of the change meets all of the following conditions.

- (1) total cost exceeds \$1,000.00 (total cost for computer equipment exceeds \$500)
- (2) the useful life is extended two or more years, and

Examples include:

A work truck being equipped with screens, lights or radios for use as a single unit throughout its life expectancy is considered one unit.

If police cars are constantly changing light bars, or radios to other vehicles, the City will capitalize each piece of equipment separately, if it meets the required dollar amount.

A department's computer (CPU, monitor, keyboard, and printer) is considered one unit.

A department will record donated machinery and equipment at fair market value on the date of transfer with any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

Buildings

A department will capitalize buildings at full cost with no subcategories for tracking the cost of attachments. Examples of attachments are roofs, heating, cooling, plumbing, lighting, or sprinkler systems, or any part of a basic building. The department will include the cost of items designed or purchased exclusively for the building.

A department's new building will be capitalized only if it meets the following conditions:

- (1) the total cost exceeds \$5,000.00 and
- (2) the useful life is greater than two years.

A department improving or renovating an existing building will capitalize the cost only if the result meets all of the following conditions:

- (1) the total cost exceeds \$5,000.00
- (2) the useful life is extended two or more years, and
- (3) the total cost will be greater than the current book value and less than fair market value.

Capital building costs, may include preparation of land for the building, architectural and engineering fees, bond issuance fees, interest cost (while under construction), accounting costs if material, and any costs directly attributable to the construction of a building.

A department will record donated buildings at fair market value on the date of transfer with any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

Improvements Other Than Buildings:

The definition of this group is improvements to land for better enjoyment, attached or not easily removed, and will have a life expectancy of greater than two years.

Examples are walks, parking areas and drives, golf cart paths, fencing, retaining walls, pools, outside fountains, planters, underground sprinkler systems, and other similar items.

Improvements do not include roads, streets, or assets that are of value only to the public. For example, Main Street is a public street with greatest value to the public. Roads or drives upon City-owned land that provide support to our facilities are assets. A sidewalk down the road for public enjoyment is an infrastructure improvement and is not capitalized. However, sidewalks installed upon City-owned land for use by the public and for the support of our facility are capital assets.

This City will capitalize new improvements other than buildings only if it meets the following conditions:

- (1) the total cost exceeds \$5,000.00, and
- (2) the useful life is greater than two years.

A department will capitalize improvements or renovations to existing improvements other than buildings only if the result meets the following conditions:

- (1) the total cost exceeds \$5,000.00, and
- (2) the asset's useful life is extended two or more years, and
- (3) the total cost will be greater than the current book value and less than fair market value.

A department's donated improvements other than buildings will be recorded at the fair market value on the date of transfer with any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

Section 2. Capital Asset Acquisitions

The method of acquisition is not a determining factor. Each department should report items acquired by:

- Regular purchases,
- Lease purchase—see below,
- Construction by City personnel,
- Construction by an outside contractor,
- Resolution/condemnation,
- Donation/contribution,
- Addition to an existing asset,
- Transfer from another department
- Trade or barter,
- Annexation

Leased equipment should be capitalized if the lease equipment meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option
- The lease term is equal to 75 percent of the estimated economic life of the leased property
- The present value of the minimum lease payment at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above criteria should be recorded as an operating lease and reported in the notes of the financial statements.

Section 3. Asset Transfers and Dispositions

Property should not be transferred, turned-in for auction, or disposed of without prior approval of the department head. The Disposal of Capital Asset section of the Capital Asset Notification Form shall be completed and turned in to the Clerk-Treasurer's Office. This form is a dual-purpose form for transfer (defined as any movement of an asset by virtue of change in location, either by account, department, building, (floor, or room) or retirement (disposal) of property).

If an asset is stolen, the department should notify the Human Resources/Safety Director as well as the City Clerk-Treasurer's Office.

Section 4. Periodic Inventories

A physical inventory of all capital assets will be conducted in each department, excluding utilities on or about December 31, 2005 and bi-annually after December 31, 2005 by the Mayor, Clerk-Treasurer, or a designee of their choosing. A physical inventory of all capital assets will be conducted in each utility department on or about December 31, 2006 and bi-annually after December 31, 2006 by the Mayor, Clerk-Treasurer, or a designee of their choosing. Department heads will be accountable for the capital asset inventory charged to their departments by verifying a list of their capital assets at yearend.

Section 5. Responsibilities of Clerk-Treasurer's Office

The Fiscal Officer will ensure that accounting for capital assets is being exercised by establishing a capital asset inventory, both initially and periodically in subsequent years. The Fiscal Officer will further ensure that the capital asset report will be updated annually to reflect additions, retirements, and transfers and to reflect the new, annual capital asset balance for financial reporting purposes.

Section 6. Responsibilities of Department Managers

It is the responsibility of the department manager to act as or designate a steward for each piece of property. The steward will become the focal point for questions regarding the availability, condition, and usage of the asset, as well as the contact during the physical inventory process.

Someone should be designated to record the receipt of the asset, to examine the asset to make sure that no damage was incurred during shipment and to make sure that the asset was received in working order.

The steward is also responsible for arranging for the necessary preventative maintenance and any needed repairs to keep the asset in working condition. It is necessary to have a responsible person for questions that arise during a physical inventory or when someone wants to borrow the asset. The steward ensures that the asset is used for the purpose for which it was acquired and that there is no personal or unauthorized use. In addition, the steward should report any property damage or theft to the Human Resources/Safety Director of the City.

Section 7. Recording And Accounting

The City and its various departments shall classify capital expenditures as capital outlays within the fund from which the expenditures was made in accordance with the Chart of Accounts of the Cities and Towns Accounting manual. For purposes of recording fixed

assets of the City and its Departments, the valuation of assets shall be based on historical cost or where the historical cost is indeterminable, by estimation for those assets in existence.

Some of these arrangements present special problems relating to the cost to be recorded, for example, in utility accounting, interest during a period of construction has long been recognized as a part of the asset cost. Reference to an intermediate accounting manual will illustrate the recording of acquisition of assets under the aforementioned acquisition arrangements. For purposes of recording fixed assets the valuation of assets shall be based on historical cost.

In addition, assets shall be recorded and maintained to provide a detailed record of the capital assets of the governmental unit using the Indiana State Board of Accounts approved form 211.

Section 8. Depreciation Methods (This section applies to Utilities Department Only)

The City Utilities Department only will be depreciating capital assets by using the straight-line method. The City Civil Departments are not required to depreciate.

Salvage value will be determined on an asset-by-asset basis. Depreciation will be calculated at yearend. Land and Infrastructure is not depreciated according to general accepted accounting principles.

All assets accounted for under the Capital Asset Policy will be depreciated using the straight-line method of depreciation. A gain or loss on disposal will be recorded. Following is a list of the most common useful lives:

- Vehicles-5 years
- Office Equipment-5 years
- Office Furniture-20 years
- Heavy Equipment-10 years
- Fire Trucks-15 years
- Buildings-50 years
- Building Components (HVAC systems, roofing)-20 years
- Leasehold Improvements-useful life of asset or lease term (whichever is shorter)
- Land Improvements-structure (parking lots, athletic courts, swimming pools)-20 years
- Outdoor Equipment-(playground equipment, radio towers)-15 years
- Grounds Equipment-(mowers, tractors, attachments)-15 years
- Computer Hardware-3 years
- Computer Software-5 years
- Communications Equipment-10 years

City Utilities' useful lives are as follows:

Water

- Transmission and Distribution Mains-50 years
- Meter/Hydrants-50 years
- Pumping Equipment-50 years
- Water Treatment Equipment-50 years
- Reservoirs Tanks-50 years
- Transportation Equipment-10 years
- Shop and Lab Equipment-10 years

Sewer

- Sewer Lines-50 years
- Lift Station-50 years
- Treatment Plant Equipment-10 years
- Miscellaneous Operating Equipment-5 years

ORDAINED AND ESTABLISHED this 26 day of April, 2005.



Thomas Arthur, Mayor of the City of Brazil,
Indiana

ATTEST:



Tracy Webster, Clerk-Treasurer of the City of Brazil, Indiana

MEMBERS OF THE COMMON COUNCIL

AYES:

Martin S. Beasley
Martin Beasley

A. Ann Bradshaw
A. Ann Bradshaw

Patricia Heffner
Patricia Heffner

William Lovett
William Lovett

James Sheese
James Sheese

NAYS:

Martin Beasley

A. Ann Bradshaw

Patricia Heffner

William Lovett

James Sheese

Presented by me to the Mayor of the City of Brazil, Indiana for his approval and signature on this 22~~2~~ day of April, 2005.

Tracy Webster
Tracy Webster, Clerk-Treasurer of the
City of Brazil

APPROVED and signed by me on the 27 day of April,
2005, at the hour of 8:34 o'clock A.m.

Thomas Arthur
Thomas Arthur, Mayor of the City of
Brazil, Indiana